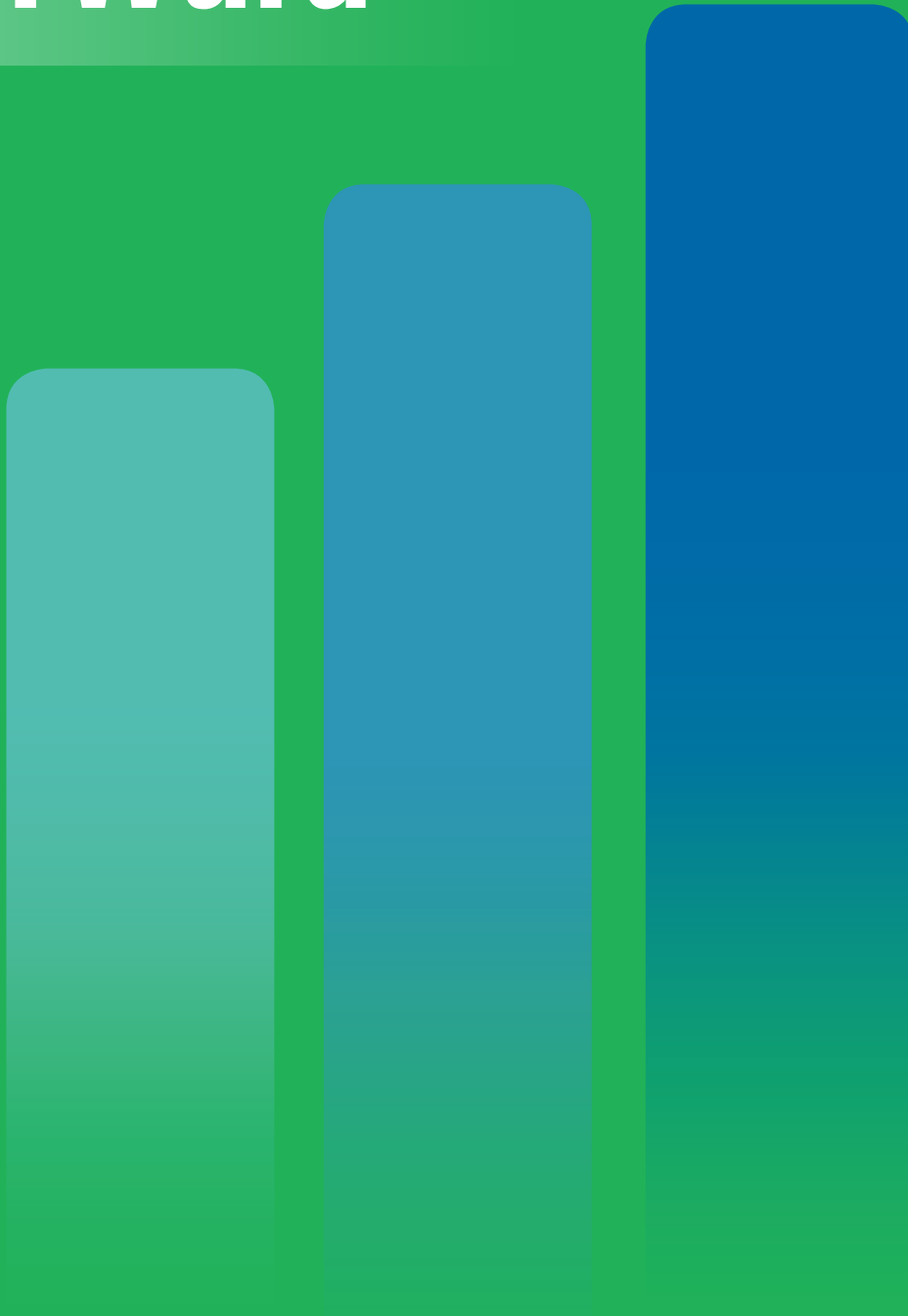


Forward



Budget & Tax Primer



CENTER *for* PUBLIC POLICY PRIORITIES

WORKING FOR A BETTER TEXAS™

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About

Introduction

With one in 11 children in the United States calling Texas home, our state has a big role to play in the future of America. To ensure that our large and rapidly growing child population is prepared to meet tomorrow's challenges, we must invest in education. We need strong early childhood education, strong public schools, and strong colleges and universities to ensure a prosperous future.

Preparing for the future requires the political will to reform our antiquated revenue system now. To move forward, we must have a revenue system that is fair and adequate. Our revenue system, though, has always been unfair and is increasingly inadequate.

In fact, in a historically low-tax state, state and local taxes measured as a share of our total personal income has been falling. Over the last two decades, if state and local taxes had merely been held constant as a share of growing total personal income, the Legislature would have had tens of billions of additional dollars to invest in children.

Making matters worse, because of decisions made in 2006, Texas now begins every budget cycle roughly \$10 billion short (what is often called the state's structural deficit). Consequently, the Legislature has been forced to make cuts to education that have severely damaged our ability to prepare our kids for the future.

This primer outlines the current budget process and why Texas is short of the money it needs. Accompanying this primer are inserts that suggest some smart steps we can take to fix our problems and some missteps we must avoid so that we don't fall further behind.

The data used here are based on the most recent numbers available as of publication. You can stay updated on our budget and tax work by visiting www.cppp.org. We hope this information is helpful to you in working to meet the needs of Texas children.

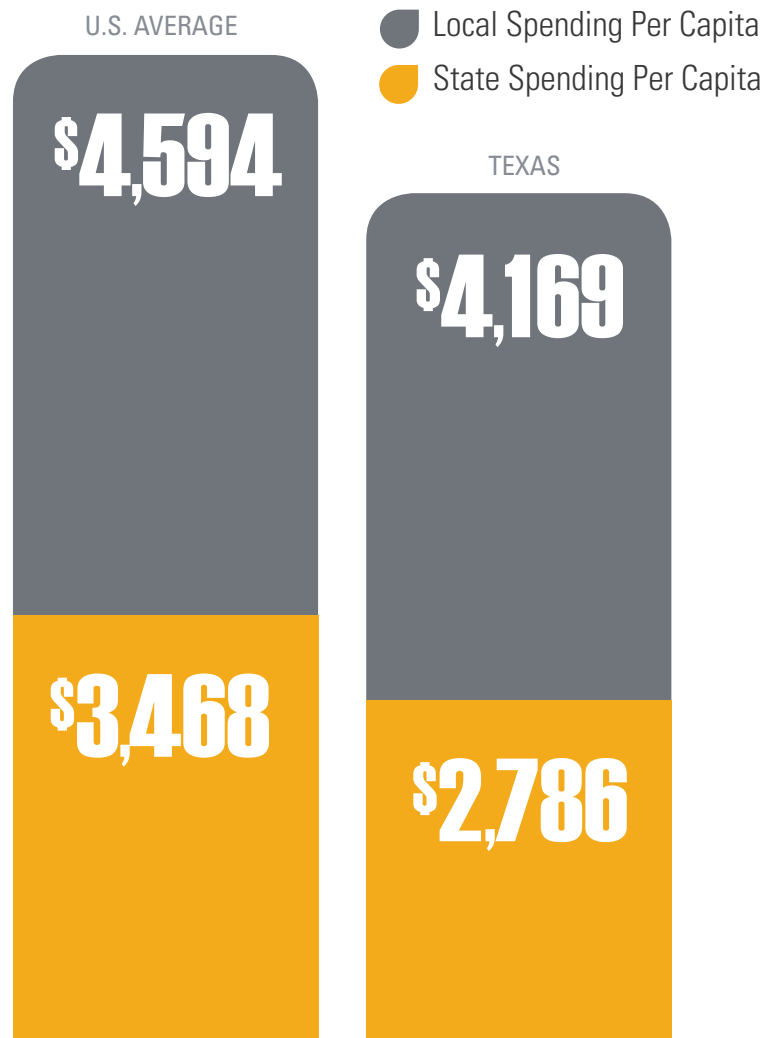
How Texas Spends Its Money

Public services are provided by both state and local governments and, looking at the combined effort, Texas is a low-spending state. This is the direct result of low state government spending.

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Texas is 43rd on direct general spending per capita, for state and local government, 2009

Source: State & Local Government Finance Data Query System, The Urban Institute-Brookings Institution Tax Policy Center, 2009 direct general expenditures



State Government Spending

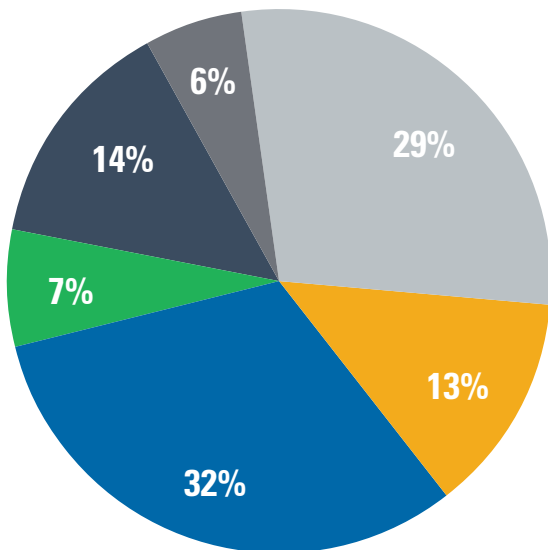
The State of Texas spends less per resident than the U.S. average.

Texas has long been a low-spending state, often at the expense of some of the most necessary services. The two greatest areas of spending at the state level are public education and health and human services, which together make up more than half of the state's All-Funds and General Revenue budgets. Still, Texas ranks near the bottom in education spending per student and health care spending per patient.

The state budget is made up of several funding sources—

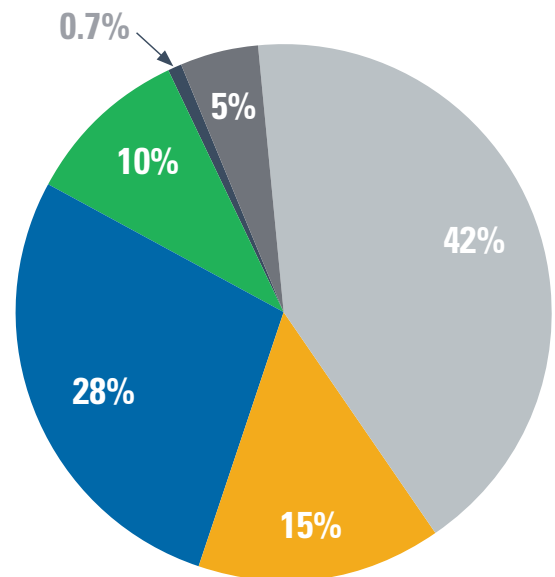
- **General Fund**, which is the fund that receives state tax revenues and fees considered available for general spending
- **General Revenue-Dedicated**, which are dollars set aside for a particular purpose
- **Federal Funds**
- **Other Funds**, which include the State Highway Fund and Property Tax Relief Fund

The 2012-13 Texas State Budget



All-Funds Budget

Total: \$173 billion



General Revenue Budget

Total: \$81 billion

- | | | |
|------------------|--------------------------------|----------------------------|
| K-12 Education | Health & Human Services | Business/Econ. Development |
| Higher Education | Public Safety/Criminal Justice | Other |

Source: Legislative Budget Board, Fiscal Size-up 2012-13, appropriated amounts as of December 2011

State Government Spending

General Revenue spending is often described as the “discretionary” part of the budget, giving the impression that legislators are free to allocate General Revenue without too many restrictions. But according to the Legislative Budget Board, the Legislature has control over less than one-fifth of the state’s general revenue. The rest is controlled by things like state court orders, state law, constitutional provisions, and federal regulations.

Texas is one of only four states with a biennial budget and biennial legislative session. The legislature convenes in January of an odd-numbered year and writes a budget for the two-year period that begins that following September, covering the two upcoming state fiscal years. The budget is contained mostly in a general appropriations act, which is the one piece of legislation that must pass before the legislature adjourns. The legislature may also have to enact a supplemental appropriations act to make any needed changes to the fiscal year that has not yet ended, as well as approve passage of other smaller appropriations acts and revenue bills that could be needed in addition to the general appropriations act. The appropriations act must first be approved by both the House and the Senate, then certified by the Comptroller to verify that it does not spend any more General Revenue than is forecast to be available, and then go to the Governor for line-item vetoes and final approval.

In writing a budget for the next biennium, the legislature has to make sure it balances—meaning, they appropriate only as much General Revenue or Rainy Day funds as the Comptroller estimates will be available. But once the biennium actually starts, the budget can change on both the spending and the revenue sides. If less revenue comes

in than was originally forecast, the resulting budget shortfall must be dealt with by the legislature before tackling the next budget. If more revenue comes in than is appropriated, the state ends that biennium with a balance. A carry-forward balance should never be considered a “surplus” if there are postponed payments, deliberate underfunding of vital services, and money not used for their intended purposes.



Overall State Government Spending



State Aid Per Pupil



Medicaid Payments Per Enrollee

* U.S. average was \$5,535; Texas \$4,884.

Sources: “2010 Annual Survey of State Government Finances,” U.S. Census Bureau, www.census.gov/govs/state/; Rankings of the States 2011 and Estimates of School Statistics 2012, National Education Association, www.nea.org; Kaiser State Health Facts, www.statehealthfacts.org

Local Government Spending

In 2009, Texas' local governments—such as school districts, cities, counties, community college, and hospital districts—spent an estimated \$120 billion total, or \$4,169 per resident, compared to the national per-capita average of \$4,594 in 2009.

Local government spending typically includes revenues from state and federal government. Looking only at “own-source” spending, which excludes these two revenue sources, Texas' local governments provided \$90 billion in public services in 2009, compared to \$59 billion from the Texas state budget. Texas local government spending is higher than state spending because the state has pushed its responsibilities for public services down to school districts, cities, and other local governments.

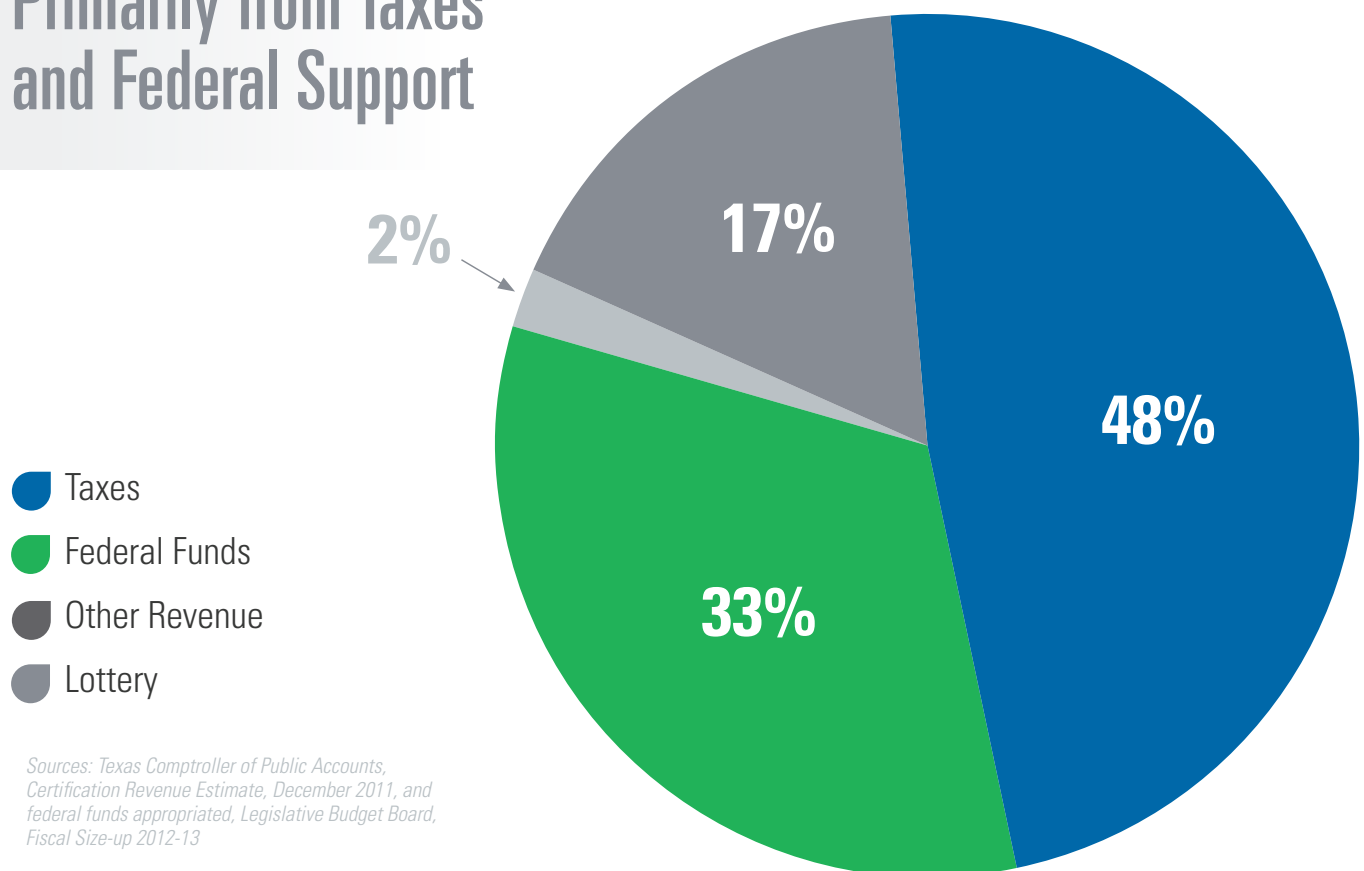
Elementary and secondary education is the primary area of local spending because of our relatively young and school-aged population.

Because of rapid population growth and the ensuing need to finance the building of schools and other basic infrastructure through bonds, Texas local governments spend more on debt than their counterparts elsewhere.

Not only do local governments spend more, they are also a major employer, accounting for one of every nine Texans employed at a nonfarm job in 2012. About half of local government employees in Texas work in elementary and secondary public schools. Since payroll costs account for almost 70 percent of local school spending, reductions in school spending generally lead to cuts in staffing. Just in the first year of the 2012-13 biennium, local school employment fell by more than 25,200, at the same time that enrollment went up by almost 65,000 students.

How Texas Gets Its Money

Texas Gets Its Money Primarily from Taxes and Federal Support



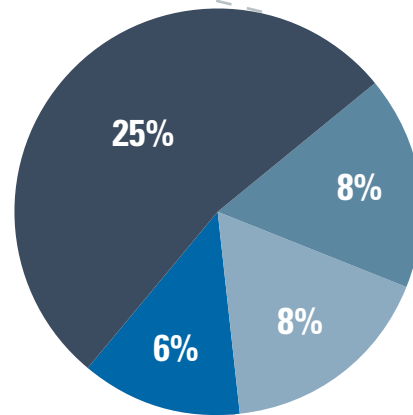
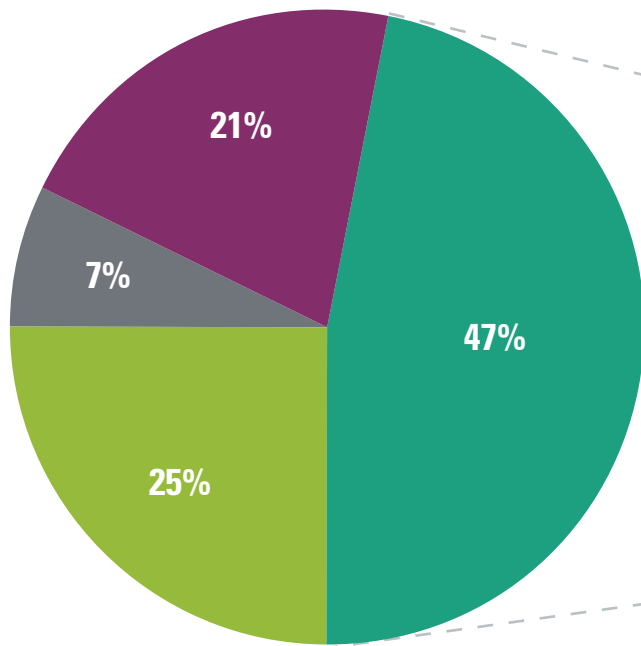
Sources: Texas Comptroller of Public Accounts, Certification Revenue Estimate, December 2011, and federal funds appropriated, Legislative Budget Board, Fiscal Size-up 2012-13

Taxes

Texas Does Not Have a State Personal Income Tax

Texas has a very low state tax bill, ranking 45th in state taxes per resident. But Texas has a very high local tax bill—16th highest among the 50 states—because the state “pushes down” to local governments a larger share of costs.

Texas Is a Two-Tax State: Property and Sales Taxes



Local Sales Tax

Property Taxes

School District

County

State Sales Tax

Other State Taxes

City

Special District

Sources: Texas Comptroller of Public Accounts, Annual Property Tax Report-Tax Year 2010; Annual Cash Report 2011

Taxes

Texas ranked **14th** in sales taxes and **14th** in local property taxes per resident. These two taxes are high because, unlike most other states, Texas does not have a state personal income tax.

- **In 2011, almost 80 percent of state and local taxes paid by Texas taxpayers went to just two taxes—property and sales. The property tax, more than half of which supports local elementary and secondary schools, was the largest tax paid by the average family.**
- **The state sales tax of 6.25 percent accounts for the lion’s share of sales taxes collected.**
- **Cities, counties, transit authorities, and other local taxing units may levy sales taxes of up to 2 percent combined, for a total maximum sales tax of 8.25 percent.**
- **All other state taxes combined, such as the motor vehicle sales tax, franchise tax, and taxes on gasoline, cigarettes, and alcohol, make up only one-fifth of all state and local taxes paid in Texas.**

14th

STATE TAXES

Most state tax revenue goes to General Revenue, but some, such as portions of the franchise and cigarette taxes that were changed in 2006, flow into other funds. In 2010-11 these two taxes accounted for 14 percent of all tax collected, but only 10 percent of GR taxes. This is because all additional revenue generated by the 2006 changes, over the amount that would have been collected under the former law, goes to the Property Tax Relief Fund. This fund can be used only to reduce school property tax rates by replacing local property tax revenue and is not considered General Revenue.

Three-fourths of state motor-fuels taxes (on gasoline and diesel fuel) goes to the State Highway Fund, which is not part of General Revenue. One-fourth goes to the Available School Fund, which is distributed to school districts and does count as General Revenue. Motor-fuels taxes are 8 percent of All-Funds tax collections, but only 3 percent of General Revenue tax collections.

General sales taxes and motor vehicle sales taxes, plus other taxes linked to consumption—motor fuels taxes and “sin” taxes on cigarettes, tobacco, and alcohol—account for 77 percent of All-Funds tax revenue and 78 percent of General Revenue taxes.

Taxes initially paid by businesses, including the franchise tax, natural gas and oil production taxes, the tax on insurance premiums, and other taxes, provide the rest of state tax collections.

State Taxes

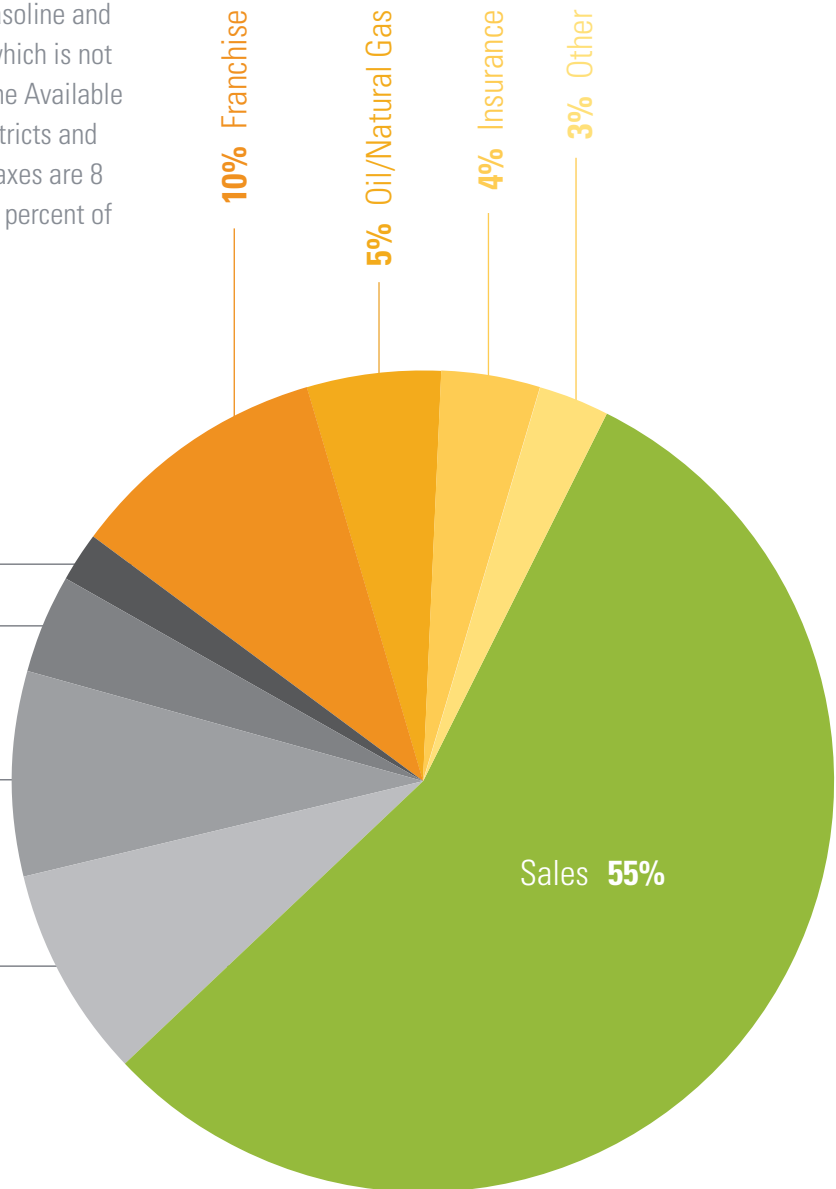
2010–11 Biennium: \$74 billion
(All Funds)

Alcohol **2%**

Cigarette/Tobacco **4%**

Motor Fuels/Gasoline **8%**

Motor Vehicle **8%**



Source: Texas Comptroller of Public Accounts, Certification Revenue Estimate, December 2011

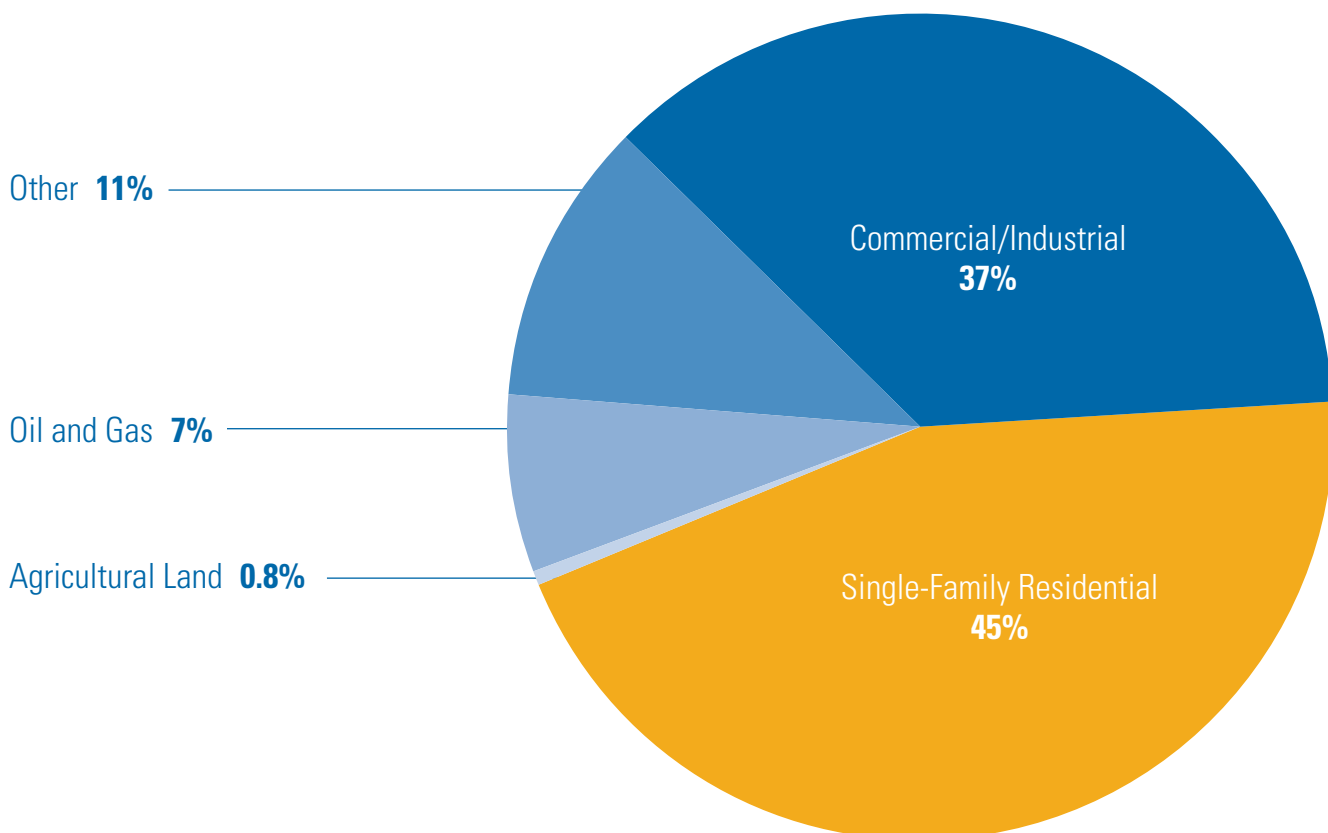
LOCAL PROPERTY TAXES & EXEMPTIONS

Local property taxes are the primary source of revenue for local governments (school districts, cities, counties, and special districts like community colleges). Property taxes are based on the value of a property, as estimated by the appraisal district in each county. The appraisal is intended to reflect the market value of a property, but many properties are eligible for exemptions or special treatments that reduce the appraised value to arrive at the lower taxable value on which the tax liability is calculated. In other words, because of exemptions schools lose out on billions of dollars in revenue.

Property in Texas had a total market value of \$2.1 trillion in 2010. School property tax exemptions and special treatments of \$465 billion reduced this amount by 22 percent to a taxable value of \$1.6 trillion.

Taxable Property Value After Exemptions

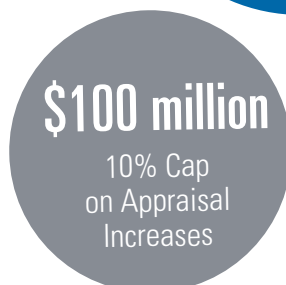
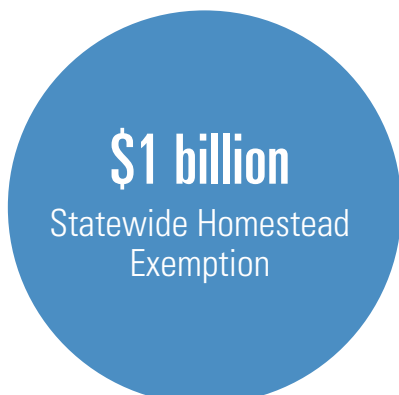
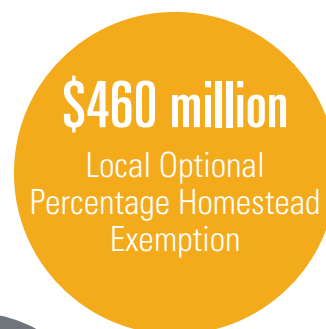
Total: \$1.6 trillion



LOCAL PROPERTY TAXES & EXEMPTIONS

- **Single-family homes account for 45% of the taxable property value in Texas. Various exemptions and special treatments reduce the taxable value of homesteads (owner-occupied homes), so that the taxable value of single-family residences is, on average, only about three-quarters of their estimated market value.**
- **Commercial property, including apartments, and industrial property together account for 37 percent of statewide taxable value.**
- **Agricultural land accounts for only 0.8 percent of the taxable value. The taxable value of farm, ranch, and timberland is set by the land's capacity to produce agricultural products, rather than on its full market value. This special treatment (popularly known as the "ag exemption") reduced the value of qualified acreage by 94 percent — causing a loss of \$2.7 billion in school property tax revenue.**

Schools lost \$5.7 billion in potential revenue in 2011 because of exemptions.



TEXAS' REGRESSIVE TAX SYSTEM

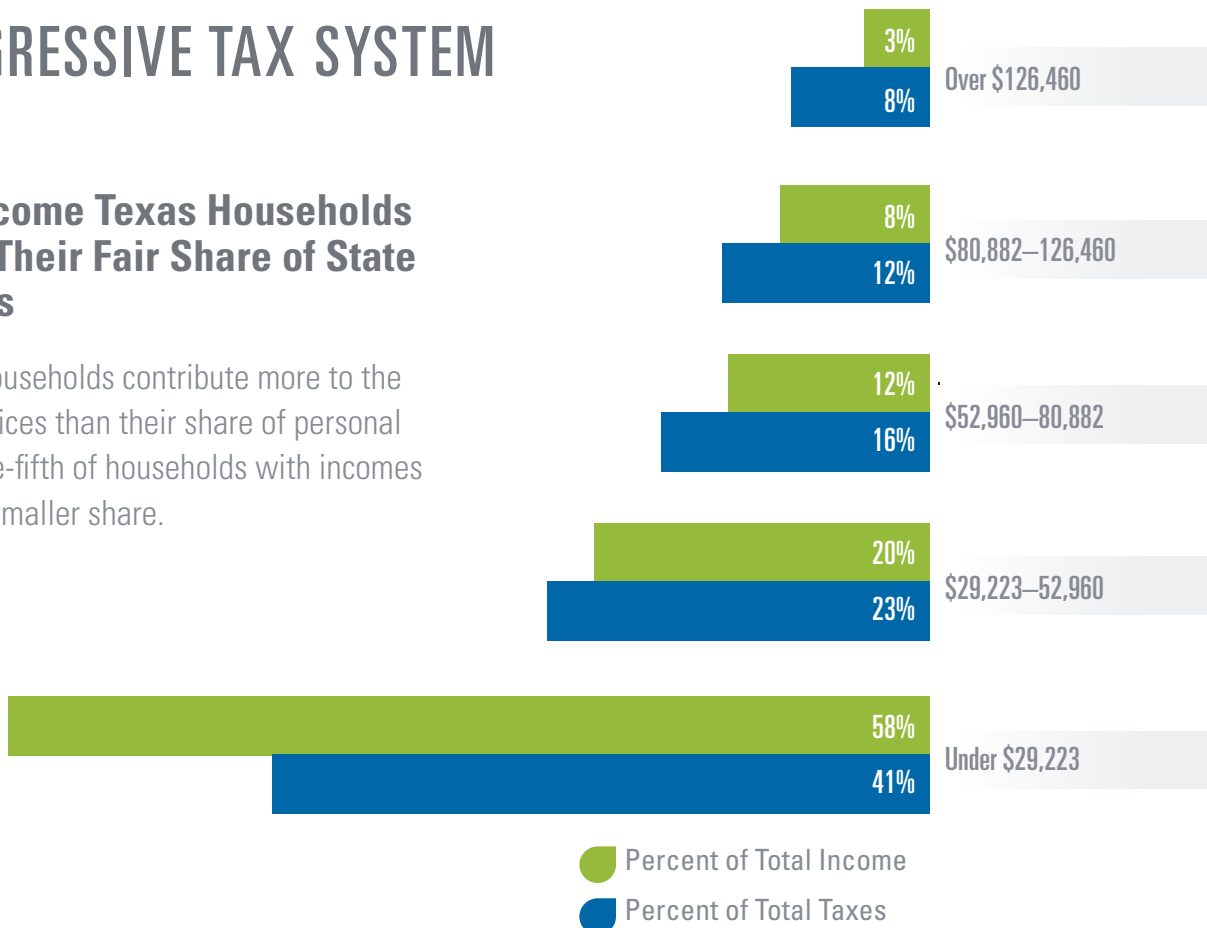
The Texas state and local tax system is regressive, meaning low- and moderate-income families are required to contribute a disproportionate share of their income to the support of vital public services. In other words, it takes a much greater percentage of income from a low- or moderate-income family than from a higher-income family. Texas' tax system is the fifth most regressive among the states and pushes down those families who are struggling to make it into the middle class.



TEXAS' REGRESSIVE TAX SYSTEM

The Highest-Income Texas Households Pay Less Than Their Fair Share of State and Local Taxes

Four-fifths of Texas households contribute more to the support of public services than their share of personal income, while the one-fifth of households with incomes over \$126,500 pay a smaller share.

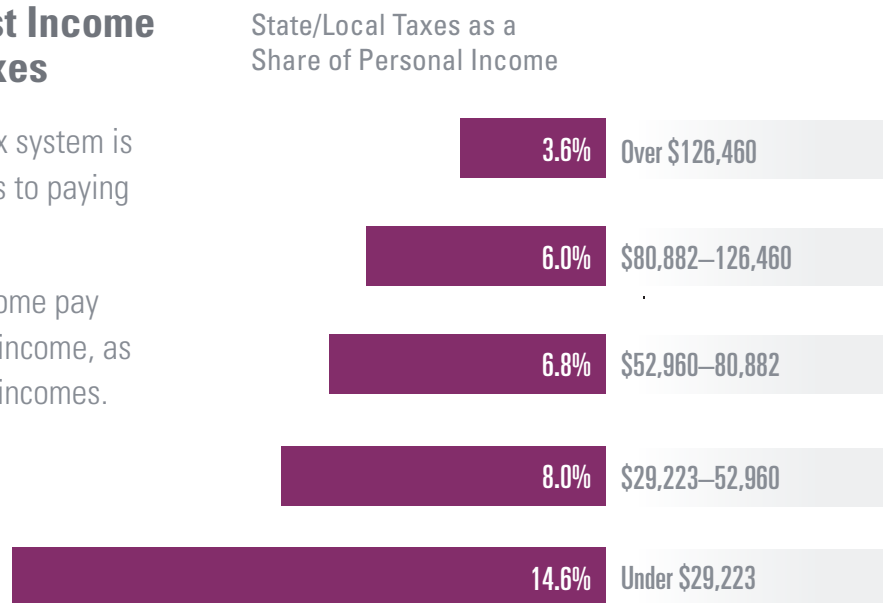


Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence 2011.

Texas Households with the Lowest Income Pay the Highest Percentage in Taxes

Another way to look at the fairness of Texas' tax system is to examine the share of family income that goes to paying for public services.

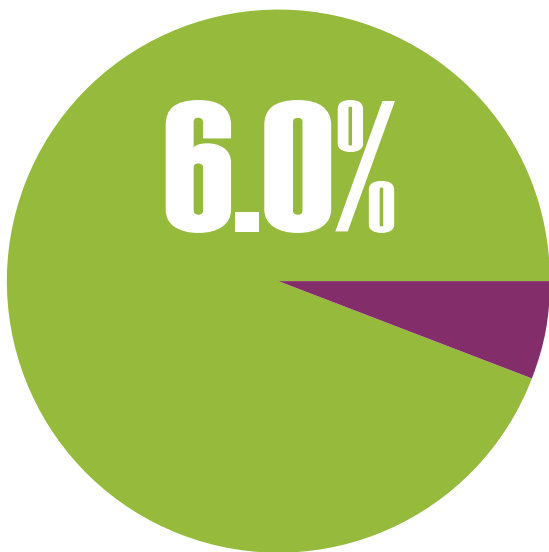
The one-fifth of households with the lowest income pay four times as much in taxes, as a share of their income, as do the one-fifth of households with the highest incomes.



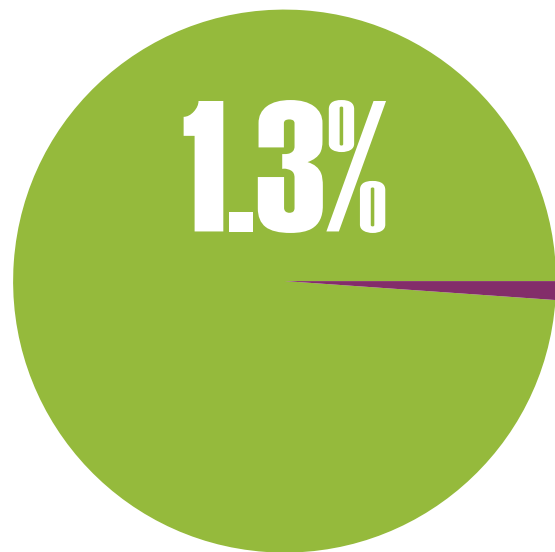
Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence 2011

TEXAS' REGRESSIVE TAX SYSTEM

Taxes based on consumption are extremely regressive. For instance, an average Texas low-income family pays 6.0 percent of its income in sales taxes, while an average high-income family pays only 1.3 percent of its income in sales taxes. The sales tax exempts most groceries, residential utilities (gas, electric, water) and medicines. Even with these exemptions for necessities, the sales tax by its nature is still regressive.



An average Texas low-income family pays 6.0 percent of its income in sales taxes.

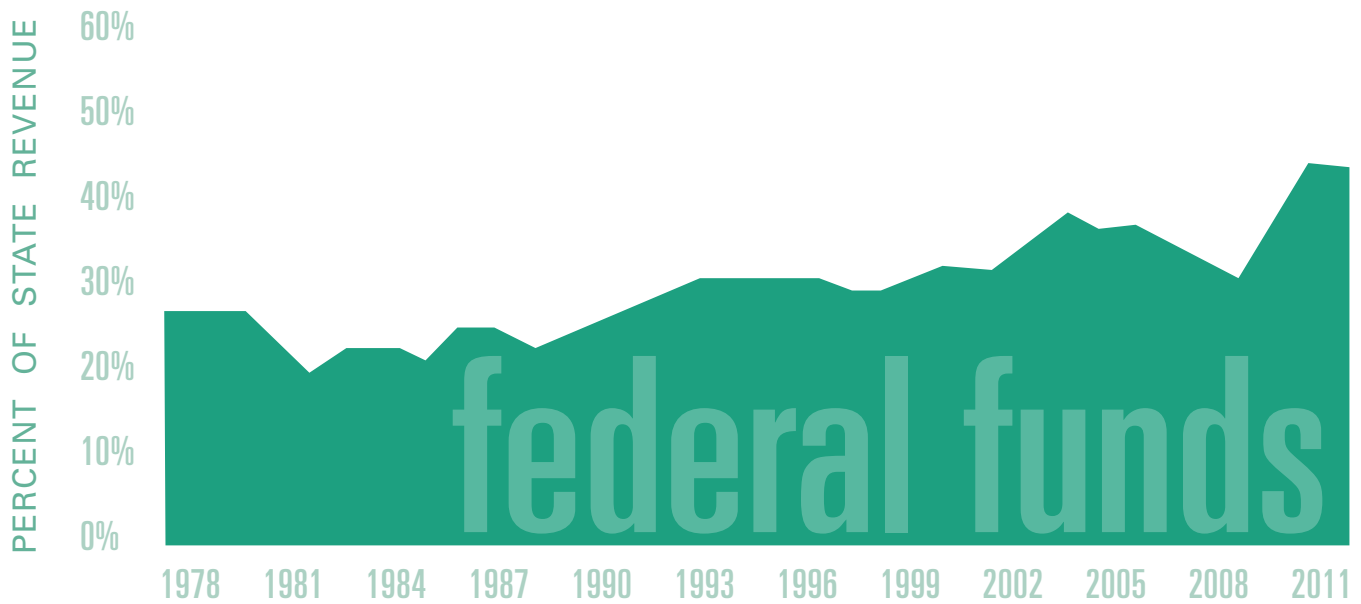


An average high-income family pays only 1.3 percent of its income in sales taxes.

Federal Funds

Federal funds are a vital part of any state budget, and they are particularly important in the Texas state budget. Texas ranked 11th highest in federal funds as a share of state government spending (35 percent) in 2009. Texas uses a significant amount of matching federal funds to greatly expanding health care access for low-income residents.

The State Relies on Federal Funding to Support Public Services



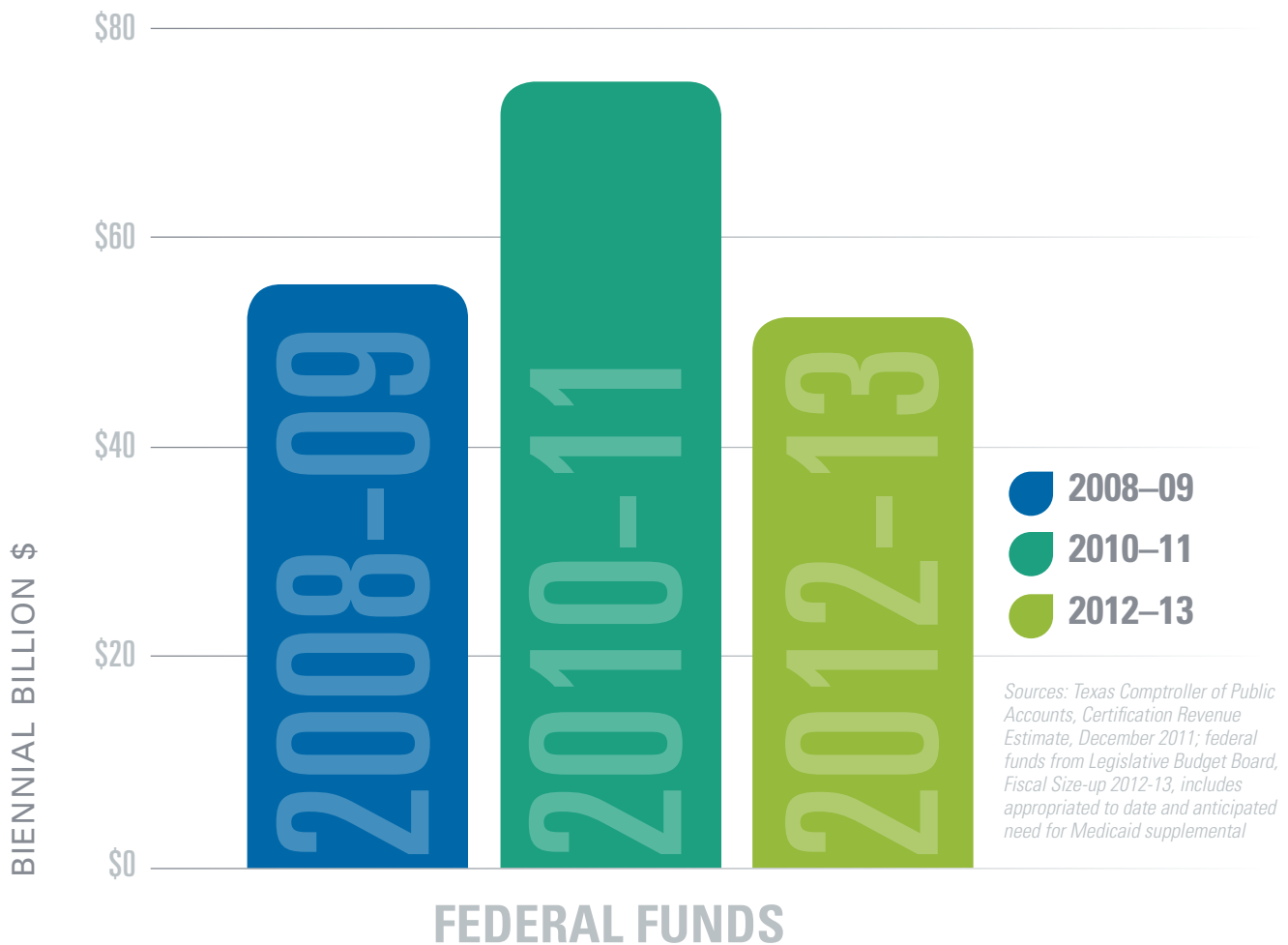
Source: Texas Comptroller of Public Accounts

Federal Funds

In the 2010-11 biennium, the federal government supplied more than 40 percent of all state revenue, due to the additional temporary American Recovery and Reinvestment Act (“stimulus”) funds. The state budget received \$15 billion in federal stimulus support in 2009, 2010, and 2011. While some of that money was dedicated to specific, one-time uses, the Legislature used about

half to replace General Revenue spending on schools and health care. In other words, rather than take advantage of the ARRA funds to jumpstart the economy, Texas used it to fund public services typically paid for with General Revenue. In 2013 and years after, actions to reduce the federal budget deficit will reduce the amount of federal money available to states.

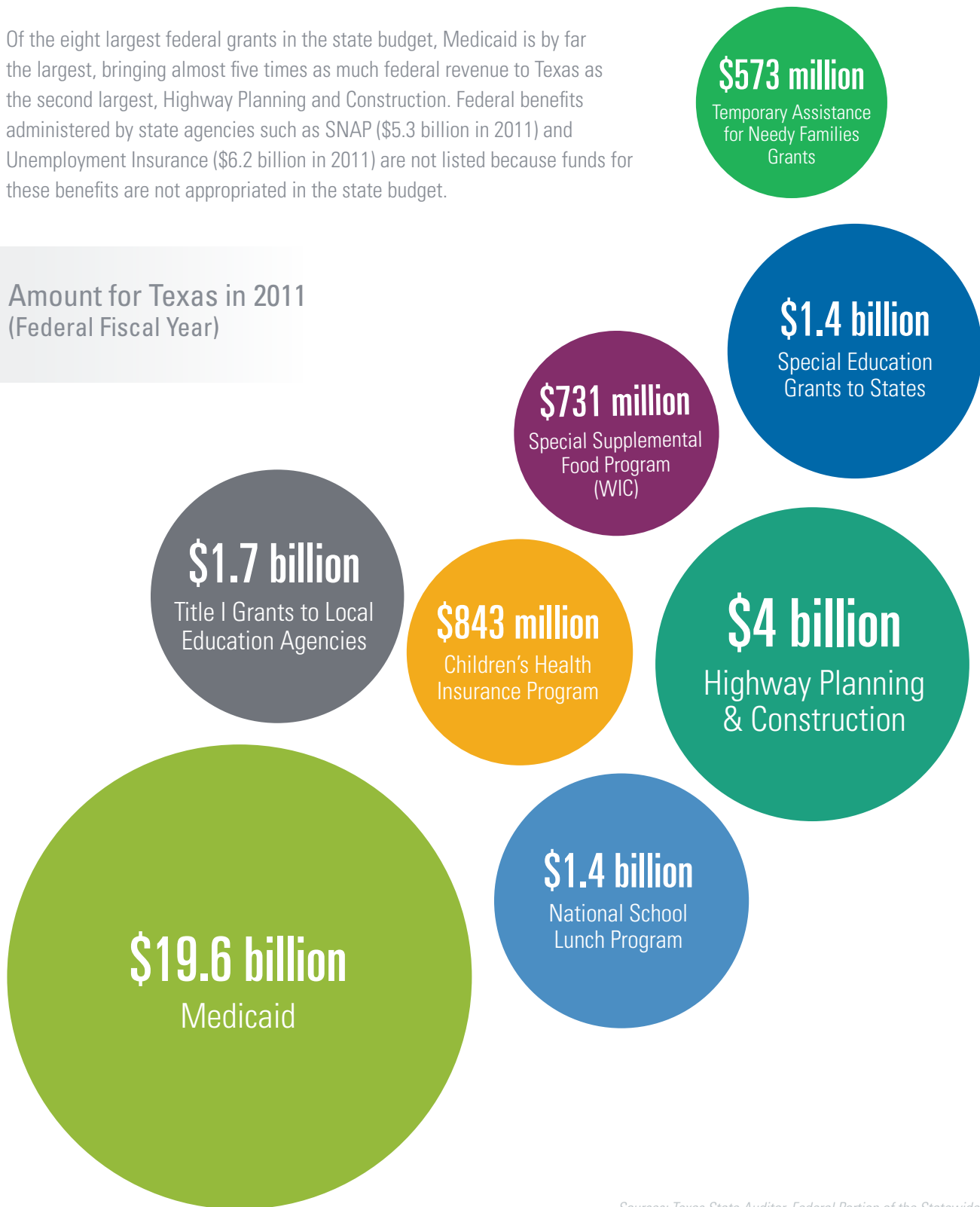
The State Relied on Federal Stimulus Funds in 2010–11



Federal Funds

Of the eight largest federal grants in the state budget, Medicaid is by far the largest, bringing almost five times as much federal revenue to Texas as the second largest, Highway Planning and Construction. Federal benefits administered by state agencies such as SNAP (\$5.3 billion in 2011) and Unemployment Insurance (\$6.2 billion in 2011) are not listed because funds for these benefits are not appropriated in the state budget.

Amount for Texas in 2011
(Federal Fiscal Year)



Sources: Texas State Auditor, Federal Portion of the Statewide Single Audit Report for Fiscal 2011; Legislative Budget Board

Rainy Day Fund

After the sharp decline in state revenue caused by the bust in oil and gas prices in the mid-1980s, Texas amended the state constitution to create the Economic Stabilization Fund, commonly called the Rainy Day Fund. The fund is designed to save revenue collected in good times to pay for services when revenue drops in bad times. As the economy recovers, revenue recovers, and the state can once again pay for services out of current revenue.

The fund is not intended to cover only one-time costs or to be set aside to respond to natural disasters; instead the purpose of the fund is to protect the state's ability to provide ongoing services.

Rainy Day Fund (billion \$)



SOURCES: Texas Comptroller of Public Accounts, 2012-13 Certification Revenue Estimate; Legislative Budget Board; Texas House Research Organization; Center on Budget and Policy Priorities, "Rainy Day Funds: Opportunities for Reform," Revised April 2007

Rainy Day Fund

The constitution requires that deposits to the fund be made when oil or gas production taxes collected in a fiscal year exceed the amounts each tax collected in 1987 and when unencumbered General Revenue remains at the end of a biennium. The legislature can also appropriate money to the fund. Recent rapid growth in the Rainy Day Fund is due to growing natural gas taxes, supplemented recently by increased oil severance taxes.

The constitution limits how big the Rainy Day Fund can become. The cap is 10 percent of revenues deposited in General Revenue in the prior biennium, excluding interest and investment income and fund transfers. The current cap is about \$13 billion. A two-thirds vote of those present and voting is required to spend money from the fund in most circumstances.

Use of the Rainy Day Fund has become a point of contention. Historically, however, the Legislature has used the fund freely.

- In 1991, \$29 million of the Rainy Day Fund was spent on public schools;
- In 1993, \$197 million was used for criminal justice.
- The 2003 legislature spent \$1.2 billion from the Rainy Day Fund—almost all that legislators expected it to contain through 2005. One-third went to cover CHIP (Children’s Health Insurance Program) and Medicaid shortfalls for 2003, while the remainder was appropriated for 2004-05 to fund retired teachers’ health care and the creation of the Texas Enterprise Fund.
- The 2005 legislature spent \$1.9 billion from the Rainy Day Fund, using roughly half for 2005 shortfalls and the other half for 2006-07 budget items (including the new Emerging Technology Fund and child protective services reforms).
- The Legislature did not appropriate any money from the fund in 2007 because General Revenue for the next biennium was expected to continue to grow quickly, or in 2009, when the federal government provided billions in stimulus aid used in place of General Revenue for 2010-11.
- The 2011 Legislature used \$3.2 billion to help close the 2011 revenue shortfall, but chose to cut public education funding and deliberately shortchange Medicaid rather than use the Rainy Day Fund for the 2012-13 budget.

Why It Doesn't Add Up

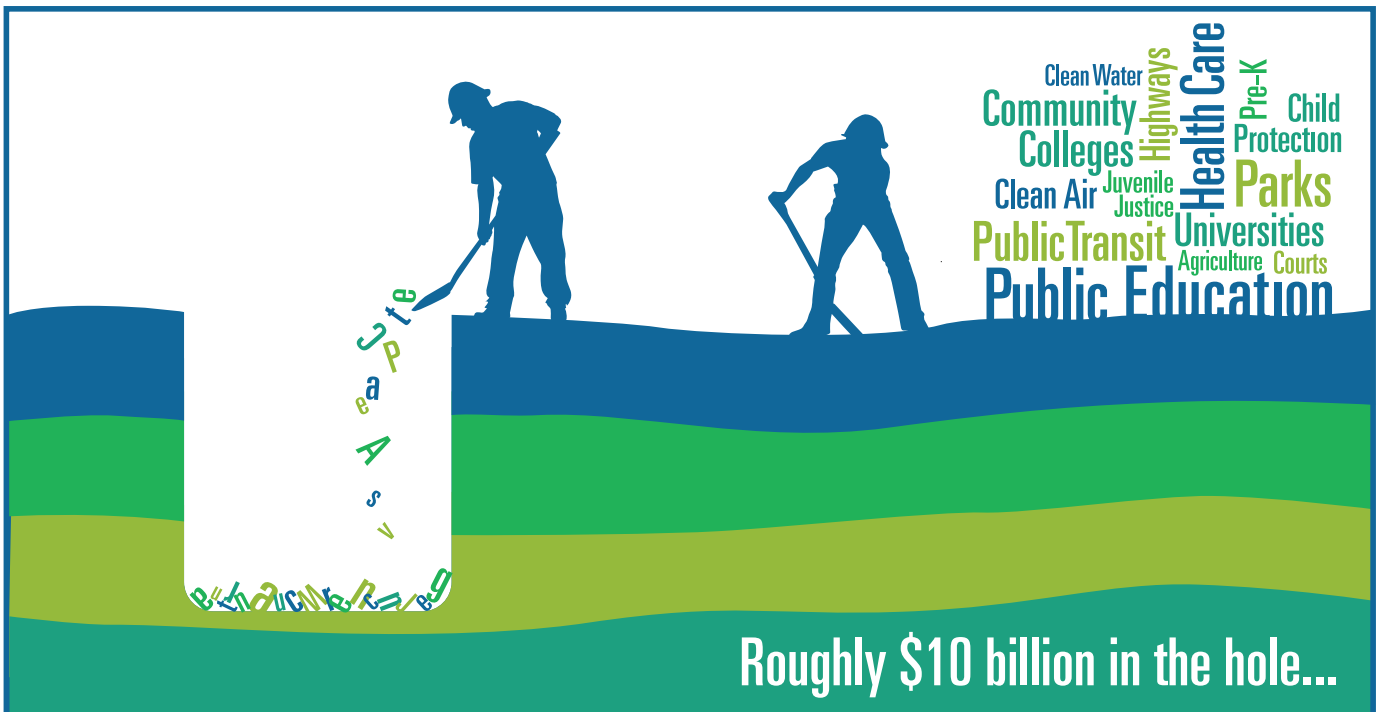
Our Decisions Have Consequences

What Texas legislators said:

We'll lower local school property taxes and replace it all with new revenue.

What really happened:

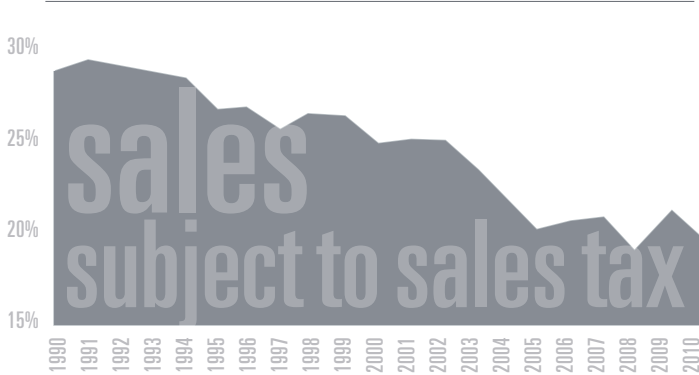
There wasn't enough new state revenue, so legislators cut vital services and forced cities, counties and schools to pick up the slack.



Sales Tax Applies to Shrinking Share of the Economy

A major reason that the Texas tax system cannot keep up with economic growth is its heavy dependence on the sales tax.

The Sales Tax Applies to a Shrinking Portion of All Sales



Source: Texas Comptroller of Public Accounts, Quarterly Sales Tax Historical Data

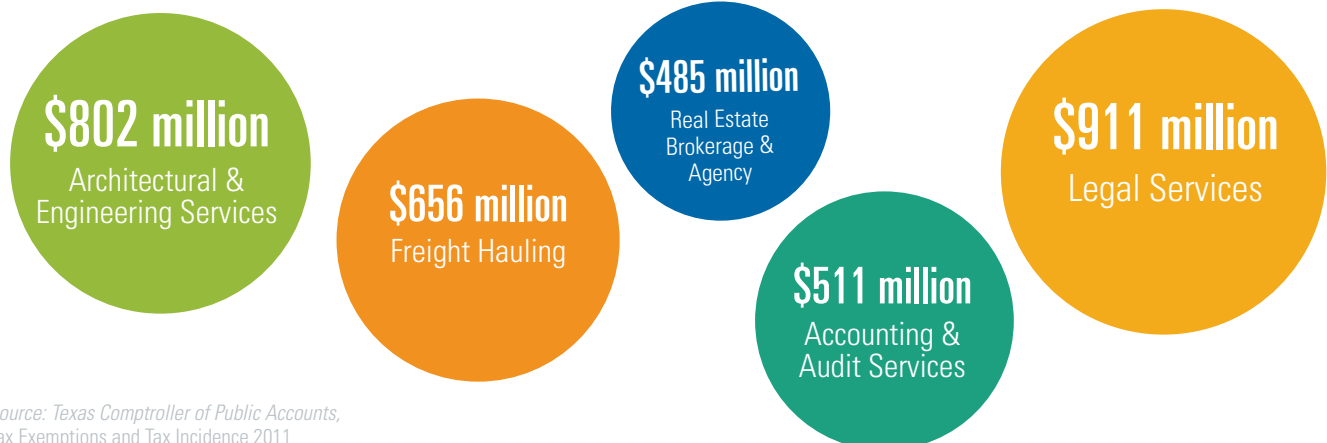
In 2010, taxable sales totaled \$1.7 trillion, but the percentage subject to the sales tax is shrinking over time. In 1991 the sales tax applied to 29 percent of all sales in Texas; by 2010 the sales tax applied to only 19 percent of

total sales—capturing only two-thirds as much economic activity. The problem is that the sales tax has not changed along with changes in the economy.

The big issue is that many services are excluded from the sales tax. Texas adopted the sales tax in 1961, when most sales involved goods—tangible items. However, in the modern economy, the fastest growing sectors involve services rather than tangible goods.

Another issue is the growth of Internet sales. Although Texas residents who purchase items from out of state via the Internet are supposed to pay the use tax (similar to the sales tax) on these items, the vast majority of purchasers fail to do so. The state generally cannot collect the sales tax directly from an out-of-state retailer, since the U.S. Supreme Court has ruled that states cannot force retailers to collect sales taxes on purchases unless the retailer had an actual physical presence in the state. Texas law was changed, starting in 2012, to broaden the definition of physical presence. In addition, Amazon has agreed to collect sales tax on purchases made by Texans to settle a lawsuit on the issue.

Cost of Business and Professional Services Exclusions in the 2012-13 biennium



Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence 2011

The Structural Deficits

The term “structural deficit” is used frequently when lawmakers and the media discuss the Texas budget, and over time it has developed several meanings. Broadly speaking, a long-term structural deficit occurs when government revenue fails to grow at the same rate as its obligations to its citizens, so vital services such as education are not maintained, with the consequence that our future as a prosperous state with a skilled workforce is jeopardized.

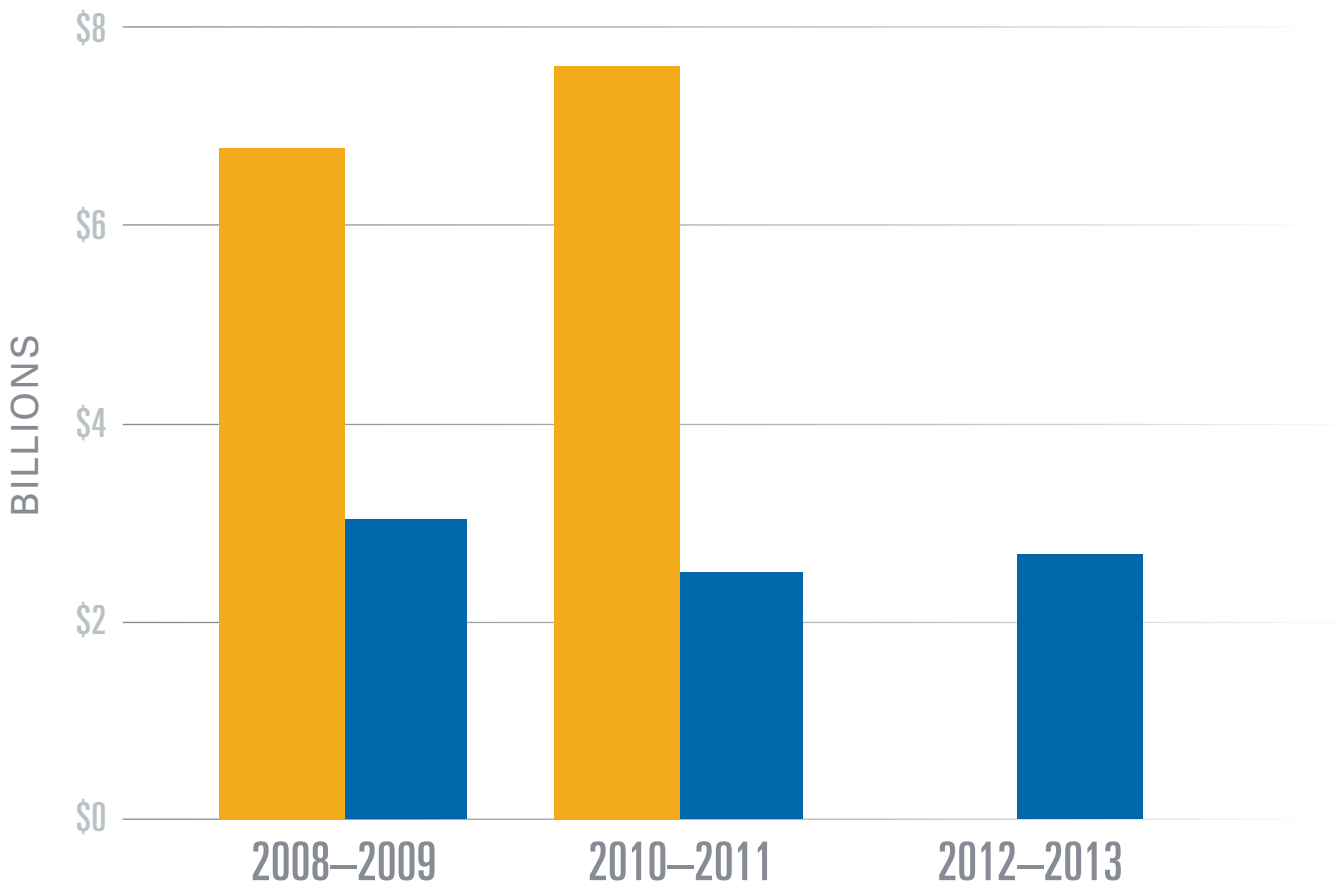
Texas got into this situation because state and local taxes have generally decreased as a share of personal income since the early 1990s. Personal income reflects the ability of Texans to pay taxes. Growth in personal income also reflects a growing need for public services, since income growth is linked to growth in population and inflation. State and local taxes combined fell from an estimated 9.58 percent of personal income in 1994, to a low of 8.45 percent in 2000, before recovering to 8.94 percent in 2006. However, local property tax cuts mandated in 2006 and the economic recession sank total tax revenues to 8.17 percent of personal income by 2010—the lowest level in many decades. If over the last 20 years state and local taxes had been able to keep up with personal income, the Legislature would have had tens of billions of additional dollars to invest in the state’s future.

Structural deficit is also used to describe a tax swap made in 2006 that ultimately led to a \$10 billion revenue hole every biennium. The Texas Supreme Court in 2005 instructed the Legislature to give school districts, most of which were taxing at the maximum permissible rate and unable to raise rates further to generate more revenue,

“meaningful discretion” to set local tax rates. The Legislature responded in 2006 by requiring school districts to reduce their school property tax rates by one-third, but committed to replacing the foregone property tax revenue so that the school districts would maintain their total state/local revenue. To fund this commitment, the state reformed the franchise tax (now popularly known as the “margins tax”) and increased the cigarette tax. However, the new state revenue raised by these changes falls some \$10 billion short in each biennium of replacing the property tax revenue given up by the school districts. The Legislature also increased other public education spending, including a pay increase for teachers and a specific allotment per high school student. These additional expenditures are unrelated to the property tax reductions and are therefore not included in calculations of the structural deficit, which is a straightforward comparison between the amount of property tax revenue foregone by school districts and the amount of new state revenue raised by the changes passed in 2006. This \$10 billion hole will appear in every state budget until the Legislature fills it with additional revenue.

The Structural Deficits

Franchise Tax Revenue is Far Short of Original Forecast



 **Original Revenue Forecast** (May 2006)

 **2008-2011 Actual Revenue** (2012-13 Projection)

Sources: Fiscal Notes to HB 1, 3, 4, and 5 (2006 special session), HB 2 (2007); Annual Cash Reports 2008-2011; 2012-13 Certification Revenue Estimate, December 2011; Legislative Budget Board, Fiscal Size-Up 2008-09

The underfunding of public education formulas by \$4 billion in the 2012-13 budget, as well as the elimination of another \$1.3 billion in specific programs such as dropout prevention and state grants for pre-kindergarten, were a direct result of the Legislature's failure to deal with the structural deficit. As long as the Legislature refuses to eliminate the structural deficit, in Texas, we will not be able to meet the growing needs of our state for education and health and human services.

The Push-Down Effect on Local Governments

Because of the state's inability to adequately support public services, funding for these services increasingly comes from local taxes. Local taxes have provided the majority of state and local taxes for public services in every year since 2002, peaking at a 56 percent share of state and local taxes in 2010.

Since 2002, school districts and other local governments have raised property tax rates repeatedly, reflecting the state's pushing down of the obligations to fund schools and health care. The statewide average school property tax rate (including both annual operations and debt service) rose from \$.99 per \$100 of property value in 1989 to \$1.68 in 2005, before falling to \$1.25 by 2007, due to the school tax cuts made in the 2006 special session. In 2010, school property taxes averaged \$1.30 statewide.

The recent rise in school tax rates indicates that districts are struggling to fund programs sufficient to meet state mandates. The inability of schools to raise adequate revenue, even at maximum tax rates, is an issue in the current school-finance lawsuits.



Glossary

10 PERCENT CAP ON APPRAISAL INCREASES: The taxable value of a homestead may not increase by more than 10 percent per year, not including improvements to the property. Lowering the appraisal cap below the current 10 percent would shift the burden of property taxes onto lower-income families, whose property tends to appreciate more slowly, tax similar properties differently depending on the length of time they had been owned, and discourage the sale of real estate.

AG EXEMPTION: The taxable value of farm, ranch, and timberland is set by the land's capacity to produce agricultural products, rather than on its full market value.

AVAILABLE SCHOOL FUND: A constitutionally created fund consisting of the distributions made to it from the total return on all investment assets of the Permanent School Fund, the taxes authorized by the Texas constitution or general law to be part of the Available School Fund (ASF), and appropriations made to the ASF by the legislature. Part of the ASF is transferred to the State Instructional Materials Fund to provide textbooks for children attending the public schools and the balance of the ASF is allocated to school districts.

BUSINESS EXEMPTION AND OTHERS: Various reductions in taxable value are available to businesses, cutting the amount of property tax collected by schools by \$725 million. These reductions include "freeport" exemptions for certain inventory, tax increment financing arrangements, school tax abatements granted under Chapter 313 of the Tax Code, and an exemption for pollution control equipment.

CERTIFYING THE BUDGET: The process through which the Comptroller of Public Accounts determines that the amount of General Revenue appropriated in the appropriations act (or acts) is less than or equal to the amount estimated to be available in the period of time covered by the appropriations act(s). The comptroller's certification satisfies the requirement in the Texas Constitution that the state not spend more money than it has.

FEDERAL MATCHING FUNDS: Federal grants awarded with a cost-sharing requirement, such as a percentage of total funding. Match ratios vary considerably by program. For most federal grants, state expenditures must occur throughout the grant year in proportion to federal funds drawn. Maintenance of Effort (MOE) refers to a minimal level of state spending required as a condition of receiving federal funds. MOE is an absolute dollar amount, typically based on an historical level of state spending.

FISCAL NOTE: Document which accompanies a bill and describes the estimated financial impact, including cost, revenue, and staffing impacts, enacting the bill will have. Required for every bill by senate rules; in the house, a fiscal note is required on the determination of the chair of the committee hearing a bill that the bill has fiscal implications.

LOCAL OPTIONAL OVER-65 AND DISABLED EXEMPTION: Taxing units, including school districts, may offer these homeowners an additional exemption of at least \$3,000.

LOCAL OPTIONAL PERCENTAGE HOMESTEAD

EXEMPTION: Any taxing district, including a school district, city, county, or special district, may offer an exemption of up to 20 percent of the value of a home, with a minimum of \$5,000. This optional percentage exemption is in addition to the dollar-amount homestead exemption. Since the optional exemption applies to a percentage of the value of a homestead, it reduces the taxable value of a higher-priced home more than the value of a lower-priced home. In contrast, the mandatory statewide exemption of the first \$15,000 of a homestead's value has a greater impact on a low-value home than on a higher-value home.

MARK-UP: The period of time during which the Senate Finance Committee or the House Appropriations Committee makes changes to general or supplemental appropriations bills.

OVER-65 "TAX FREEZE": The amount of school taxes on a homestead is "frozen" once a homeowner reaches the age of 65. To be exact, a ceiling is established at the level of school taxes paid in the year in which the homeowner turns 65. Taxes can fall below this ceiling, but not rise above it, unless the home is improved. A similar freeze is available to homeowners with a disability and veterans.

RAINY DAY FUND: The Economic Stabilization Fund

STATEWIDE HOMESTEAD EXEMPTIONS: All homeowners qualify for a \$15,000 exemption from their home's value for school taxes. Homeowners age 65 or older and persons with disabilities qualify for an additional \$10,000 exemption from school taxes.

SUNSET REVIEW: A process created by the legislature in 1977 to identify and eliminate waste, duplication, and inefficiency in state agencies. The 12-member Sunset Advisory Commission is a legislative body that reviews the policies and programs of more than 150 state government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them.

SOURCES USED FOR TERMS: Senate Research Office; Legislative Budget Board; Comptroller of Public Accounts; Texas Tribune; Sunset Advisory Commission.

We believe in Texas.

We believe in the people of Texas—our friends and neighbors, our sons and daughters. All Texans. We stand for community. People from all walks of life. United. We stand for justice. Working to improve public policy. Advocating at the Capitol and on the Hill. We stand for telling the truth—respectfully but with courage. And we mean the whole truth based on hard facts and rigorous analysis. When 1 in 5 of us lives in poverty. 1 in 4 doesn't have health care. And 1 in 5 children in this state is at risk of going hungry. Things have to change. And that's why we're here. Together we can make our state a better place for all of us. A place of opportunity and prosperity. Because we all do better when we all do better. We never shy away from the tough conversations. About affordable health care, strong schools and colleges, good jobs, and child well-being. We stand for economic and social opportunity for all Texans. Because Texans believe in opportunity. For over a quarter of a century, we've strived to do our best. Finding meaning in our work. Fighting for what's right.

Because we believe in a better Texas.

